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January 15, 1997

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Mr. William F. Caton
Acting Secretary
Federal Communication Commission
1919 M Street, NW-Room 222
Washington, DC 20554

Re: Ex Parte Presentation in CC Docket No. 97-1

Dear Mr. Caton:

Today, at the request of Staff, I provided the following documents to Brent Olson of the Common Carrier Bureau: (1) Michigan Exchange Carriers Association, Inc. formal complaint against Ameritech Corporation and Michigan Bell Telephone (Ameritech Michigan), Case No. U-11293, filed on December 20, 1996; and (2) AT&T's Reply Comments to Ameritech Michigan's December 6, 1996 Submission of Information Related to the Competitive Checklist, Case No. U-11104, filed on January 9, 1997.

Two copies of this letter and the attachments are being submitted to the Secretary of the Federal Communications Commission in accordance with Section 1.1206(a)(1) of the Commission's Rules.

Sincerely,

Attachments

cc: Brent Olson

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STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter, on the Commission's own motion,)	
to consider Ameritech Michigan's compliance)	Case No. U-11104
with the competitive checklist in Section 271)	
of the Telecommunications Act of 1996.)	
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**AT&T'S REPLY COMMENTS TO AMERITECH MICHIGAN'S
DECEMBER 16, 1996 SUBMISSION OF INFORMATION
RELATED TO COMPLIANCE WITH THE COMPETITIVE CHECKLIST**

Ameritech has met its stated goal of being first to file a Section 271 application under the Telecommunications Act of 1996. On January 2, 1997 -- less than 10 days after it made its final submission of 271 information to this Commission -- Ameritech was the first RBOC to request FCC authorization to provide in-region interLATA service. But Ameritech's breathless pursuit of long-distance market entry cannot compensate for its failure to show that its request should be granted. The evidence in this record will show Ameritech is not yet furnishing non-discriminatory access and interconnection as required by the competitive checklist found in Section 271 and is not yet prepared to do so. Absent compliance with these items, Ameritech's local exchange bottleneck -- which currently precludes customer choices in Michigan -- cannot be opened to meaningful competition. Indeed, the extremely limited amount of competitive activity in Michigan today precludes a favorable recommendation by the Commission that approval of the application would be in the public interest.

As a closer examination of Ameritech's submission reveals, Ameritech's alleged compliance consists largely of paper promises of interconnection -- promises that have yet to be implemented or tested in the competitive marketplace. It is unclear whether even these promises will have any lasting significance, particularly given Ameritech's appeal of many aspects of the FCC's First Report and Order. Indeed, in light of the uncertainty raised by Ameritech's appeal of a host of pricing and other issues, there can be no certainty that the specific Ameritech proposals supposedly supporting this application will ever be implemented.

In an effort perhaps to side-step its shortcomings, Ameritech has truncated the amount of time available to evaluate its application. By filing with the FCC even before the MPSC's mandated response period in this docket had expired, Ameritech has made it difficult, if not impossible, for the Commission and the parties here to give careful consideration to the hundreds of pages of testimony that Ameritech's submission will no doubt elicit. Cognizant of these constraints, AT&T has not attempted through this submission to comprehensively catalog the failings evident in Ameritech's January 2 application. Instead, AT&T's submission is limited.¹ Nonetheless, this Commission should not recommend approval of Ameritech's application because of the significant shortcomings detailed in AT&T's limited submission, a few of whose points are summarized below.

OPERATIONS SUPPORT SYSTEMS

Ameritech has yet to fulfill the checklist requirement to provide nondiscriminatory (i.e., at parity with Ameritech's retail operations) access to operations support systems ("OSS") for

pre-ordering, provisioning, maintenance and repair, and billing. The OSS process, which begins with the development of interface specifications, can be deemed complete only after a period of meaningful integration testing, i.e., testing that conclusively demonstrates that the CLEC system can effectively communicate with the Ameritech system for the purpose of processing transactions in the volumes that will be required in the marketplace, and with the same performance levels Ameritech provides internally. It is not until there is a proven ability to effectively and efficiently communicate, from end-to-end, that a system can be said to be in a state of operational readiness. Such systems do not now exist in Michigan.

Resale: First, Ameritech continues to revise its specifications for a variety of its resale interfaces. Until the specifications have been stabilized, the interfaces cannot be tested sufficiently, and certainly cannot be considered operational.² Second, because the specifications are continually changing, not all of the resale interfaces are currently being tested by Ameritech and AT&T, and testing has not been completed on any of the resale interfaces. Of the small volume of resale orders involved in testing since October 1996, less than a quarter have been successfully completed via the automatic processing channels of the electronic systems without "falling out" to manual processing. Further, the type of orders tested thus far did not include the complex ones that will be required to meet customer demand. And other interfaces have even less testing experience to support Ameritech's claims. These results conclusively demonstrate that these systems are not operationally ready to support competitive activities.

² In response to specific AT&T questions to Ameritech regarding the resale ordering specifications in December, Ameritech promised to provide revised specifications in the first week of January. As of today, those revised specifications have not been provided.

Unbundled Network Elements: Ameritech has done little to fulfill its obligations to provide "parity-level" OSS interfaces for use with the unbundled platform or other UNEs. Ameritech has provided some pre-ordering specifications that it alleges can be used for unbundled elements as well as resale. That assertion remains untested and unverified. Ameritech has also provided some ordering specifications for isolated unbundled network elements, but there are no specifications for ordering, provisioning, maintenance or billing of Unbundled Network Element (UNE) combinations or the UNE platform.³ Moreover, there has been no testing of any electronic interface relating to unbundled elements. Ameritech purports to offer the "implemented" unbundled platform as one of the available vehicles for CLEC entry into the local market. But due to the lack of any operational interfaces for the unbundled platform, this avenue to competition currently is simply unavailable.

Unproven Capacity: Ameritech's OSS electronic interfaces have never been tested with a competitively significant volume by any CLECs. This alone raises questions regarding whether non-discriminatory access is truly available.

COST-BASED PRICES

Ameritech states that prices, or the methodology for establishing prices, for all checklist items have been established either by Commission Order, in contracts or in tariffs. What Ameritech fails to mention is that, in three tariff proceedings and in all arbitration proceedings thus far, the MPSC has rejected Ameritech's cost studies as not being in compliance with the

³ The first technical meeting between Ameritech and AT&T on the pre-ordering, ordering, and provisioning interfaces for unbundled elements took place on December 20, 1996. There was no agreement on specifications or dates for publishing specifications.

appropriate forward looking, incremental cost principles and methodology of the Act. In its most recent Order on the subject, the Commission allowed Ameritech's tariffs to go into effect only on an interim basis until more extensive cost proceedings could be completed. Thus, in all respects, the rates for unbundled elements, local traffic termination, interim number portability, and wholesale services contained in tariffs and arbitrated interconnection agreements are interim and provisional, at best. Notably, Ameritech has appealed the MPSC's decision to use cost studies to prevent cross-subsidization, as well as the FCC's rules concerning costing and pricing under the Act.

THE UNBUNDLED SWITCH AND UNBUNDLED PLATFORM

Ameritech seeks to impose several plainly unlawful restrictions on the use of the unbundled local switch ("ULS") and the unbundled platform, including restrictions on the right of the purchaser of the ULS to charge for terminating access. These restrictions stand in stark contrast to the FCC's conclusion that purchasers of the ULS are entitled to all exchange and exchange access revenues, including termination charges. Similarly, Ameritech has refused to provide the necessary billing information to permit a CLEC to bill for terminating access charges. Ameritech also seeks to deny the purchaser of the ULS element the right to provide originating and terminating access for 800 service calls.

CUSTOMIZED ROUTING OF OPERATOR SERVICES/DIRECTORY ASSISTANCE

Ameritech seeks to undermine competition utilizing the unbundled switch and the network elements by requiring purchasers of those elements to use the Bona Fide Request (BFR) process to obtain customized routing of operator services and directory assistance calls.

Although the Michigan Commission observed that there may be issues of technical feasibility relating to the customized routing of OS/DA calls in certain circumstances, Ameritech has not established that, in general, customized routing is not technically feasible. To the contrary, the commitments of Bell Atlantic, NYNEX and Southwestern Bell to provide customized routing of OS/DA demonstrate that customized routing is technically feasible for almost all switches used in an RBOC network, including that of Ameritech.

UNBUNDLED TRANSPORT

Ameritech offers a distorted form of "shared" transport that is functionally the same as dedicated transport, and therefore superfluous and totally at odds with the concept of common transport that the Act and the FCC regulations require. This "shared" transport would require a CLEC to purchase dedicated transport and then arrange with other new entrants to share the facilities, in essence transforming the CLEC into a reseller of unbundled transport services. This version of transport would preclude competition based on the unbundled switch or unbundled platform, and force purchase of Ameritech's high-cost alternative "retail" services, thus unreasonably and unlawfully constraining potential competition.

ROUTE INDEXING AS INTERIM NUMBER PORTABILITY OPTION

Ameritech has refused to provide route indexing as an interim number portability option, notwithstanding the fact that route indexing is technically feasible and has been voluntarily provided by at least two RBOCs and ordered to be provided by at least three state commissions.

* * * * *

SUPPORTING AFFIDAVITS

In support of these points, and to document other defects and raise other issues critical to the Commission's consideration of Ameritech's submission, AT&T is submitting the following affidavits:

-- Affidavit of John P. Puljung. Mr. Puljung broadly discusses the reasons why Ameritech's application is premature. Mr. Puljung set forth certain standards that should apply to the Section 271 process and discusses the need for operational testing of the interfaces and other procedures that are established for opening the local exchange at competitively significant volumes;

-- Affidavit of Timothy Connolly. Mr. Connolly describes the status of development, testing and implementation of OSS interfaces and the significant actions that still must occur before those interfaces can be considered operationally ready;

-- Affidavit of C. Michael Pfau. Mr. Pfau describes Ameritech's failure to provide nondiscriminatory access to OSS interfaces and the measurements that should be used to determine whether the access provided is nondiscriminatory;

-- Affidavit of Robert Sherry. Mr. Sherry describes the significant shortcomings in Ameritech's unbundled switching element, the unbundled platform, customized routing of

operator services and directory assistance, and Ameritech's distorted proposal for interoffice transport;

-- Affidavit of Judith D. Evans. Ms. Evans describes Ameritech's failure to offer route indexing as an interim number portability option. Ms. Evans also discusses non-discriminatory access to directory listings and dialing parity;

-- Affidavit of William G. Lester. Mr. Lester discusses the many unresolved issues relating to Ameritech's obligations with respect to non-discriminatory access to poles, ducts, conduits and rights-of-way.

-- Affidavit of Michael Starkey. Mr. Starkey discusses the lack of meaningful competition in the local exchange market in Michigan;

These affidavits demonstrate that Ameritech has not satisfied the competitive checklist of Section 271 in that there has been little or no implementation of Ameritech's many promises: Ameritech has yet to provide the full range of resale, interconnection and unbundled elements that it is obligated to make available and operational under the Act. Until further steps are taken to resolve many legal, logistical, systems, and implementation issues associated with the dismantling of Ameritech's century-old monopoly bottleneck, there can be no determination that Ameritech has fully implemented the competitive checklist obligations of Section 271.

The rarity of a Michigan customer with a choice of local service providers today is itself the measure of how far Ameritech has to go to satisfy the requirements of the Act. The Commission should recommend to the FCC that this Ameritech application be denied.

Dated: January 9, 1997

Respectfully submitted,

**AT&T COMMUNICATIONS OF
MICHIGAN, INC.**

By: _____
One of Its Attorneys

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STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

_____)
In the matter on the Commission's own)
motion, to consider Ameritech Michigan's)
compliance with the competitive checklist)
in Section 271 of the Telecommunications)
Act of 1996)
_____)

AFFIDAVIT OF JOHN J. PULJUNG
ON BEHALF OF AT&T COMMUNICATIONS OF MICHIGAN, INC.

STATE OF ILLINOIS)
) ss.
COUNTY OF COOK)

I, John J. Puljung, being duly sworn upon oath, do hereby depose and state
as follows:

I. INTRODUCTION AND PURPOSE

1. My name is John J. Puljung. My business address is 222 W.
Adams, Suite 1360, Chicago, Illinois, 60606.

2. I am employed by AT&T Corp. as a District Manager- Regulatory
Affairs in AT&T's Central Region Law and Government Affairs Organization.

3. I graduated from Loyola University of Chicago in June, 1963 with a Bachelor of Business Administration degree with major emphasis in Economics.

4. Subsequently, I joined Illinois Bell Telephone Company as a management trainee. Over the next 20 years, I had a variety of management assignments in the Commercial, Marketing, Personnel, Engineering, Revenue Requirements and Tariffs and Costs departments. About half of that time was spent in the Tariffs and Costs department, preparing cost studies, developing prices and tariffs and supporting various rate case activities for Illinois Bell.

5. I joined AT&T in September, 1983 supporting AT&T's intrastate regulatory activities in several Midwestern states. In July of 1991, I was assigned the additional responsibility for those states of product implementation for AT&T's intrastate products and services. In January, 1994, I assumed my current regulatory responsibilities which include policy implementation, advocacy and support of AT&T's regulatory initiatives on behalf of its intrastate telecommunications services in the five states in which Ameritech operates, including the State of Michigan.

6. The purpose of my Statement is to provide an informational framework that the Michigan Public Service Commission ("the Commission") can use in judging whether the §271 checklist of the Telecommunications Act of 1996

("the Act") has been implemented in a manner that will (1) foster local exchange competition, and (2) otherwise contribute to accomplishing the pro-competitive purposes of Michigan law and the Act.

7. My Statement addresses several issues related to the Commission's interest, expressed in its Order initiating this case, regarding whether a checklist item is actually being provided to a competitor in a fully functional manner and the need to assess current market conditions to analyze Ameritech Michigan's compliance with the competitive checklist.

8. My Statement also describes the implications for competition in the local exchange of anything less than full implementation of checklist items and the adverse, and possibly irreversible, effects of premature in-region interLATA entry by Ameritech. To safeguard against such results, I suggest several measures that could be employed by this Commission to assure that the checklist conditions have been fully implemented in a manner that truly serves the public interest.

9. I also discuss why an evolving local telecommunications industry structure, in which Ameritech is both a supplier of essential services and components and a direct competitor, demands a restructuring of traditional viewpoints.

10. I have two preliminary observations on how far along Ameritech is toward meeting the interLATA entry requirements. First, based on the information AT&T is submitting here, it is plain that Ameritech Michigan ("Ameritech") cannot seriously contend that it has made available or implemented all of the checklist requirements. To the contrary, it is obvious that Ameritech has far to go before the checklist is fully implemented and even further to go before there is a significant amount of facilities-based competition in Michigan. In this regard, the Commission should not be caught up in the Ameritech rush to declare that the checklist is implemented and local competition is flourishing. Ameritech seems to be operating off of an internal "interLATA entry clock" of its own devising, and not with reference to what is actually going on in the Michigan telecommunications marketplace to the detriment of Michigan consumers.

11. For the last few years, Ameritech has made repeated claims that conditions are in place for competition, and that local markets are in fact competitive. In April, 1993, in its original Customers First Plan filing with the FCC, Ameritech represented that all the conditions necessary for competition were in place. And in this proceeding, Ameritech makes this same claim. It is the task of this Commission to judge whether Ameritech's insistence that approval of its interLATA entry is appropriate now is based upon market conditions that actually exist today in Michigan or is just a reflection of its own internal plan and timetable.

12. Second, in determining whether the checklist requirements are fully functional, it is important for the Commission to consider that what Ameritech has "agreed" to do in an effort to secure interLATA service entry is not necessarily a reliable predictor of what it will do voluntarily (or otherwise) after interLATA relief is obtained. Unless we know beforehand that appropriate mechanisms are in place that will provide speedy and assured remedies to implementation problems, even over Ameritech's objection, then the assurances currently volunteered by Ameritech must be discounted as a basis for approving its request for interLATA entry.

13. Ameritech acknowledges the incentive that in-region interLATA entry provides, an incentive that no longer exists after the goal of interLATA entry has been achieved. Exhibit JJP-1 is a newspaper article from the Washington Post concerning the behavior and attitude toward local competition of another incumbent local exchange carrier, GTE. The article makes the point that GTE, which, as a non-RBOC, is currently permitted to provide interLATA service, has no incentive under the Act to cooperate to any extent in implementing the local competition checklist. Richard C. Notebaert, Chairman and Chief Executive Officer of Ameritech Corporation is quoted in the article acknowledging the incentive that the prospect of interLATA entry provides to the RBOCs:

"The big difference between us [Ameritech] and them [GTE] is they're already in long distance,' he said. 'What's their incentive' to cooperate? he asks." Washington Post, October 23, 1996 p. C14.

After interLATA entry, what is Ameritech's incentive to provide the conditions necessary for the development of local competition? In any event, any shortcomings in the full implementation of the checklist items or the certainty of enforcement must be addressed prior to interLATA entry.

14. In my statement, whenever appropriate, I have attempted to use Michigan specific examples, cases and proceedings for illustration. However, I have also included examples of Ameritech's activities and behavior from other region states as well. Ameritech's activities regarding the opening of the local exchange to competition are regional in nature. The Ameritech policies, operating systems, interfaces, practices, service centers, personnel and activities undertaken to satisfy the § 271 checklist requirements as well as the work underway to support agreements entered into under § 251/252 are all regional. For example, negotiations between Ameritech and AT&T regarding implementation of the Act were regional. The proposed AT&T/Ameritech contract presented to the arbitrators in this state was fundamentally the same as those arbitrated in the other Ameritech states. All of the Ameritech witnesses sponsoring testimony in this proceeding are employed by regional Ameritech organizations or companies, such as Ameritech Information Industry Service ("AIIS") or Ameritech Services, Inc. ("ASI"). Only one is in the employ of Ameritech Michigan. And it is organizations such as AIIS that Ameritech Corporation had designated to provision services to new entrants on a regionwide basis. As a result of Ameritech's regional

approach to the implementation of the Act regarding the opening of the local exchange market to competition, events or activities involving Ameritech in other region states are instructional and indicative of what this Commission can expect from Ameritech as competition gets underway in the state of Michigan.

II. A DETERMINATION ON FULL IMPLEMENTATION OF THE §271 CHECKLIST MUST HINGE ON WHETHER COMPETITORS CAN OFFER – AND ARE ACTUALLY OFFERING – VIABLE ALTERNATIVE SERVICES.

15. Although the details of individual checklist items are crucial when assessing whether an incumbent local exchange company has achieved full implementation, it is as important to focus on the overall purpose of the checklist and the §271 test. By the express terms of §271(c) of the Act, implementation of the checklist is intended to lead to service alternatives for local service customers, a result which will only occur if the checklist is fully and properly implemented so that competitors may viably offer service. In its First Report and Order, the Federal Communications Commission ("the FCC") relies upon this overall intent frequently.¹ Consequently, Ameritech's compliance with the checklist as a whole

¹ For example, in requiring incumbents to have interfaces operational by January 1, 1997, the FCC stressed that the January 1 date is not the specification announcement date, but rather it is the completion date, i.e., the date upon which competitors can use operational interfaces to obtain services, features or functions from the incumbent. See ¶525. ("...by January 1, 1997, new entrants will be able to compete for end user customers by obtaining nondiscriminatory access to operational support system functions." (emphasis added)).

must be judged by whether the terms of compliance enable new providers to offer services that can compete with the services offered by Ameritech. The checklist cannot be judged "fully implemented" until it is demonstrated that Ameritech's implementation allows new entrants to offer services that are equally attractive to customers in variety, features, quality, price and availability as those Ameritech provides to its own retail customers, and that providers are actually competing in the marketplace. Unless such conditions exist, local competition would not be sufficient to impose a marketplace discipline on Ameritech, and Ameritech would be able to leverage the local service monopoly into the interLATA market.

16. New entrants will be at a competitive disadvantage with the incumbent if the checklist is less than fully implemented. To illustrate this point, attached to my testimony as Exhibits JJP-2 and JJP-3 are two Ameritech advertisements that were widely used in mass media in Detroit in April of 1996. Notice that these ads are specifically directed at AT&T and they appear designed to persuade customers that AT&T local service will be inferior to Ameritech's service. Ameritech was not able to make a direct service comparison at that time because AT&T was still a long way from entering the local services market, making it particularly remarkable that Ameritech felt sufficient assurance to "predict" that AT&T's future service would be inferior.

17. The emphasis in these ads on service deficiencies plainly illustrates how a less-than-full implementation of the checklist could easily undermine competition and contribute to a new entrant's failure. In the ads, Ameritech extols the superiority of its repair, installation, and workforce as compared to that of AT&T. Ironically, however, these are service components that AT&T and other competitors must rely on Ameritech to provide, whether local service entry is on a resale basis or on an unbundled elements basis. Strangely, Ameritech seems to be pre-announcing that various checklist items will not be fully implemented. For Ameritech to make this ad "come true," it will have to provide AT&T inferior versions of these service components compared to what it provides its own retail customers. Since Ameritech has the ability to provide new entrants service inferior to what it offers its own customers at retail, in light of these ads, one wonders if Ameritech intends to do so for its own competitive advantage.

18. A similar situation exists with respect to price. Unless Ameritech appropriately prices the services, elements and functions that all competitors depend upon Ameritech to provide, Ameritech will be able to underprice its competitors at the retail level or price at levels which provide Ameritech positive margins, but which provide zero or negative margins to competitors. In Chicago area mass media advertising directed against AT&T, Ameritech has stated that it intends to have prices lower than AT&T's for intraMSA toll service. (Ameritech Illinois complied with a Commission order and implemented intraLATA

presubscription throughout its serving territory in Illinois in April, 1996.) Unless the prices of the services and components that competitors must purchase from Ameritech are set at incremental costs, including the prices for the network elements that provide access service, then Ameritech can fulfill its promise of underpricing AT&T and other competitors by imposing costs on AT&T and other competitors that it does not incur itself.

19. These are essentially "promise" ads -- Ameritech "promises" the market that its competitors' service will be inferior and that its competitors' prices will be higher. And, given the bottleneck in the local market, Ameritech has the ability -- absent full implementation of the checklist and the development of effective local competition -- to make those promises a reality. Such actions by Ameritech would be fundamentally at odds with its obligations under the checklist. Indeed, the advertisements themselves undercut Ameritech's claims that it is in compliance with the checklist because they create customer confusion -- on the one hand, Ameritech states in its public filings that it will offer service components to AT&T and other Competitive Local Exchange Carriers ("CLEC's") that are at parity with the services it provides to its customers. On the other hand, it takes out advertisements stating that AT&T's service will be inferior. Ameritech cannot have it both ways, and its advertising speaks louder than its promise that service offerings will be made available at parity

20. Due to the appeal by Ameritech and others of the FCC's First Report and Order, and the stay that was issued by the Eighth Circuit Court of Appeals, the entire area of price is now uncertain. Currently, we do not know what costing and pricing standards will apply and what the actual market prices will be. It is thus impossible to predict with any certainty whether the prices actually charged new entrants will be conducive to competition in the local market.

21. Further, no new entrant can make investments today with the certainty that those investments are being made efficiently because it does not know the relative trade-offs between resale, platform, full build, etc., and, thus, investment decisions are necessarily more uncertain. "Truing up" later, when the appeals are complete and prices are finalized, does not increase the certainty for new entrants or permit the Commission to predict now with any confidence that the pricing aspects of the checklist are met by Ameritech's proposals. In such a situation, when the inputs for local competition are unclear, it would be injurious to competition to permit Ameritech to seek in-region interLATA entry while the issue of pricing in the local exchange remains unresolved.

22. In fact, the uncertainty due to the pricing situation and the lack of checklist compliance, is increased by Ameritech's position that Michigan imputation requirements are fully satisfied if a retail rate exceeds the wholesale price offered by the same provider for the same service. (Case No. U-11103) Because Ameritech's exclusive focus here on wholesale prices fails to account for

the fact that some providers may elect to purchase unbundled components instead of wholesale services, situations could clearly arise in which the relationship between the prices that Ameritech charges competitors for component elements and its own retail prices could allow it to place a "price squeeze" on competitors by overcharging than for the use of essential facilities.

23. Ameritech asserts that entry into the local exchange market is relatively simple due to the number of firms that have been certified to provide local service. In reality, entry into the local market is not easy -- certification is but one of the steps -- and new carriers must contend with a number of significant obstacles.

24. First, local regulation may impose burdens on potential competitors that make entry more difficult. Although entry into the local exchange market is regulated by both the FCC and this Commission, municipalities are also attempting to exercise their authority by imposing certain entry requirements on new local exchange providers. Some municipalities, for example, are attempting to require new local exchange carriers to file applications for franchises to provide local service within their boundaries and to follow certain regulations once those applications are granted. Such requirements impede entry, particularly if they are imposed only on new carriers and not on Ameritech, as is the case in Michigan.

25. Second, in order to become an effective competitor in the local exchange market, a new entrant will be required to incur significant costs. AT&T has estimated that it would require an investment of \$29 billion to construct facilities capable of serving even 20 percent of the total local market in the most densely populated areas of the United States. In contrast, Ameritech claims that it has the ability to complete a region-wide facilities-based interLATA network for a very small amount.²

26. A reseller, of course, need not incur the considerable expense of building transmission and switching facilities in order to provide local service. Nonetheless, "back-office" operational support systems needed by every provider of local exchange services pose considerable financial and technical hurdles to entry. In addition, as the Act recognizes, resale cannot provide effective competition by itself; the entry of facilities-based providers of local exchange service is essential to the development of effective local competition.

27. Third, the information being submitted today by other AT&T witnesses shows that Ameritech is unlikely to be cooperative with competitors. For example, Ameritech has frankly admitted that provisioning intervals for unbundled elements will be longer for its competitors than they are for Ameritech.

² See page 5 of Exhibit JJP-4, a "first call" investment report on Ameritech, in which Mr. Notebaert is paraphrased as saying "that it would take [Ameritech] only about two to three months of free cash flow in order to reconfigure the network to provide in-region long distance over its own facilities."

Mr. Connolly notes Ameritech's tardiness in entering into discussions of its interfaces and gateways. Mr. Pfau describes Ameritech's refusal to incorporate national industry standards into its interface development. And, Mr. Starkey describes in his testimony Ameritech's position that it will advise resellers of new services only at the time it files a tariff for those services -- a practice that would give Ameritech an improper competitive advantage in the sale of those services to end users.

28. Finally, a new entrant will have considerable difficulty in eroding the entrenched position of Ameritech with its customers. As I have already described, virtually all businesses and consumers having local exchange service in Ameritech's service territory obtain their service from Ameritech -- and have always obtained their service from that one company. Even with price discounts or improved service, a new entrant will find it difficult to "shake" an Ameritech customer from the habits of a lifetime.

29. Currently, there are hundreds of resellers of long distance services and four national facilities-based long distance carriers. The substantial success of GTE and SNET in capturing rapidly growing shares of the long distance market demonstrates that local carriers can make the transition to the long distance market easily. And Ameritech has a substantial advantage over the typical new long distance entrant in that it not only has extensive industry experience but a rate-

payer funded, official services, in-region network already in place. The asymmetry of obligations imposed by the Act reflects the marketplace reality that getting CLECs into the local business is far more difficult than getting incumbent Bell companies into long distance.

30. In general, the Act is structured so as to permit state regulators to include their own state's pro-competitive requirements, even where those requirements go beyond those minimums specified by the FCC. I note that the First Report and Order establishes many "minimum" standards, and, in fact, the word "minimum" occurs there over 100 times. The Act itself authorizes the state commissions to establish additional regulation in reviewing Statements of Generally Available Terms. §252(f)(2). This Commission is authorized to establish appropriate conditions, including quality standards, which at a minimum encompass all operational parity matters. Id. Finally, the FCC clearly states that the structure of the Act is one that permits the states to "adopt additional rules that are critical to promoting local competition." (FCC First Report and Order, ¶ 24) Even the incumbent local exchange companies such as Ameritech have joined in the appeal of the First Report and Order, now pending before the Eighth Circuit Court of Appeals, to argue that the FCC should not take authority away from the states.